

## **EXHIBIT 1**

### **INTRODUCTION**

Respondent State Farm Insurance Companies, an Illinois corporation, is a business entity engaged in insurance sales. Its California headquarters are located in Bakersfield and Rohnert Park.

In 2004, during the first semi-annual campaign reporting period, Respondent made political contributions totaling \$225,000, as reported on its major donor campaign disclosure statement on July 29, 2004, and thereby qualified as a “major donor committee” under the Political Reform Act (the “Act”).<sup>1</sup> As such, Respondent was required to comply with specified campaign reporting provisions of the Act.

During the second semi-annual campaign reporting period, Respondent made an additional political contribution totaling \$25,000.

As a major donor committee, Respondent was required by the Act to file a semi-annual campaign statement, commonly known as a “major donor statement,” disclosing Respondent’s campaign activity during the six-month period July 1, 2004 through December 31, 2004.

For the purposes of this stipulation, Respondent’s violation is stated as follows:

**COUNT 1:** Respondent State Farm Insurance Companies failed to file a semi-annual campaign statement electronically for the reporting period July 1, 2004 through December 31, 2004, in violation of Section 84605, subdivision (a).

### **SUMMARY OF THE LAW**

An express purpose of the Act, as set forth in Section 81002, subdivision (a), is to ensure that the contributions and expenditures affecting election campaigns are fully and truthfully disclosed to the public, so that voters may be better informed, and improper practices may be inhibited. To that end, the Act sets forth a comprehensive campaign reporting system designed to accomplish this purpose of disclosure.

Section 82013, subdivision (c) includes within the definition of “committee” any person or combination of persons who directly or indirectly makes contributions, including loans, totaling ten thousand dollars (\$10,000) or more in a calendar year to, or at the behest of, candidates or committees. This type of committee is commonly referred to as a “major donor” committee.

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<sup>1</sup> The Political Reform Act is contained in Government Code Sections 81000 through 91014. All statutory references are to the Government Code, unless otherwise indicated. The regulations of the Fair Political Practices Commission are contained in Sections 18109 through 18997 of Title 2 of the California Code of Regulations. All regulatory references are to Title 2, Division 6 of the California Code of Regulations, unless otherwise indicated.

Section 84200, subdivision (b) requires a major donor committee to file a semi-annual campaign statement for any reporting period in which the committee made campaign contributions. The first semi-annual campaign statement covers the reporting period January 1 through June 30, and must be filed by July 31. The second semi-annual campaign statement covers the reporting period July 1 through December 31, and must be filed by January 31 of the following year.

In 1997, the Legislature amended the Act to require committees that are significantly active on the state level to file their campaign statements electronically as well as on paper. In doing so, the Legislature specifically declared, as set forth in Section 84601, subdivisions (b) and (c), that “public access to campaign disclosure information is a vital and integral component of a fully informed electorate,” and that “[a]dvances in technology have made it viable for disclosure statements or reports... to be filed online..., thereby maximizing availability to the public.” Accordingly, Section 84605, subdivision (a) requires all committees, defined in subdivision (c) of Section 82013, to file online or electronically with the Office of the Secretary of State if they make contributions of fifty thousand dollars (\$50,000) or more in a calendar year.

Section 84215, subdivision (a) requires all major donor committees that make contributions supporting or opposing state candidates, measures, or committees to file their campaign statements with the offices of the Secretary of State, the Registrar-Recorder of Los Angeles County, and the Registrar of Voters of the City and County of San Francisco.

## **SUMMARY OF THE FACTS**

During the first semi-annual reporting period January 1, 2004 through June 30, 2004, Respondent State Farm Insurance Companies made contributions totaling \$225,000 as reported in its semi-annual major donor campaign statement on July 29, 2004.

By making campaign contributions of \$10,000 or more in the 2004 calendar year, Respondent qualified as a major donor committee under Section 82013, subdivision (c).

During the second semi-annual reporting period July 1, 2004 through December 31, 2004, Respondent State Farm Insurance Companies made a campaign contribution totaling \$25,000 to Californians Against Government Run Healthcare, No on Proposition 72.

Respondent filed a major donor semi-annual campaign statement in paper format for the reporting period July 1, 2004 through December 31, 2004 on January 26, 2005. Respondent did not file a major donor semi-annual campaign statement in electronic format until March 8, 2006.

### **COUNT 1**

#### **Failure to File a Semi-Annual Campaign Statement Electronically**

As a major donor committee, Respondent State Farm Insurance Companies had a duty, under Section 84605, subdivision (a), to file a semi-annual campaign statement electronically for the reporting period July 1, 2004 through December 31, 2004, disclosing campaign contributions made during that reporting period. Respondent was required to file the electronic statement with

the Office of the Secretary of State, by January 31, 2005. Respondent failed to file the electronic semi-annual campaign statement by the January 31, 2005 due date, in violation of Section 84605, subdivision (a).

## **CONCLUSION**

This matter consists of one count, which carries a maximum possible administrative penalty of Five Thousand Dollars (\$5,000).

Since Respondent has a prior enforcement history, this matter was excluded from the Enforcement Division's Streamlined Major Donor Enforcement Program. On September 12, 2006, the Commission issued a final decision and order finding that Respondent State Farm Insurance Companies failed to file a major donor campaign statement electronically for the period January 1, 2005 through June 31, 2005. The major donor campaign statement that is the subject of this probable cause report was filed on the same day as the delinquent major donor statement in Respondent's prior prosecution. Respondent knew of this additional violation at the time of that filing.

The administrative penalty imposed for major donor filing violations resolved outside of the Streamlined Major Donor Enforcement Program has historically been determined on a case-by-case basis, and has varied depending on the mix of aggravating and mitigating circumstances. In this case, the violation is serious because the major donor statement that is the subject of this stipulation was filed on the same day as the delinquent major donor statement in the prior case. Respondent knew of this additional violation at that time. Therefore, a penalty in the high range of available penalties is appropriate.

The facts of this case and the mitigating factors justify imposition of the agreed upon penalty of Three Thousand Dollars (\$3,000).